

USING OUTLOOK PRICES IN MANAGEMENT DECISIONS

EDUCATIONAL MATERIALS

by

Allan E. Lines
Extension Economist

Department of Agricultural Economics and Rural Sociology
The Ohio State University

January 1990

I. Where do the Prices Come From

Historical Relationships

A. Commodity to Commodity

Corn/Soybean Ratio

Hog/Corn Ratio

Milk/Feed Ratio

B. Supply to Loan Ratios

Corn

Wheat

Soybeans

C. Market Outlook

D. Supply/Demand

History

Carry-out/Price

II. Reliability

Unforeseen Events Influence

A. Supply-side Shocks

B. Demand-side Shocks

C. USDA

World Board Reliability Tests

III. Using Forecasts

1. Short Run

Operational Tactical Decisions

Cash Flow Oriented

2. Intermediate Run

operational-intermediate asset purchase (i.e. livestock/equipment)

3. Long Run

Land/Buildings Investment

4. Inflation Concerns

Long Run $P=C$, C however
is probably not full cost

Does P reflect inflation?
short, intermediate, long?

5. Relational Price Ratios

Corn/Wheat

Corn/Soybean

Corn/Hog

etc.

